HSBC Asset Management

HSBC India Next Portfolio

PMS Product Note

January 2024

Which themes can benefit the most in economic revival?

CONSUMPTION		GLOCAL		DIGITISATION		HIGH ALPHA
• Secular growth sector Conventional yet progressive theme	+	• Play on MNCs in India Structural, long term theme	+	• Disruptive and New age theme	=	Disruptive themes combined with secular & progressive ones aim to have potential to deliver alpha

Growth themes may have potential to deliver sustainable growth

HSBC India Next Portfolio (HINP)

Focus on Consumption | GLOCAL | Digitisation

Inception Date : 18 February 2021

Minimum Application Amount
For (1) Fixed fee option and (2) Fixed & Performance-linked option = INR 5 million

Investment Objective
HSBC India Next Portfolio aims to generate returns and provide long term capital appreciation by investing in equity and equity related securities across market cap of businesses benefitting from transformation in Indian economy

Benchmark: Primary - S&P BSE 500 TRI, Secondary - BSE 200 Index. **Rationale for selection of benchmark** – Primary Benchmark prescribed by APMI as mandated by SEBI to evaluate relative performance of the portfolio. It is as per market cap based methodology for equity strategy. Secondary benchmark – Since its composition is in line with the objective of the investment approach. Index is broad based and is also suited for comparing the performance of the portfolio.

Fund Manager
Sheetalkumar Shah, Total Experience: 27 years, managing this portfolio since 18 February 2021

Indicative tenure or investment horizon
Medium to Long Term (3 years+)

Description of types of securities

- Equity and equity related securities including convertible bonds and debentures and warrants carrying the right to obtain equity shares.
- Derivative instruments as may be permitted by SEBI / RBI.
- Units of liquid funds/overnight funds of HSBC Mutual Fund. Cash and cash equivalents
- Any other instruments as may be permitted by RBI / SEBI / such other Regulatory Authorities from time to time

Investors should note that pursuant to Clause 2.3 of Master Circular for Portfolio Managers dated March 20, 2023, an option to invest directly i.e. without intermediation of persons engaged in distribution services, is available to the investors.

Portfolio Manager's commentary:

Indian equity markets exhibited strong performance in calendar year 2023 supported by stellar December month rally in the broad markets. The uptrend in the Indian equity market is driven by robust macro and micro factors, alleviating concerns on political continuity and expectation of improving liquidity going ahead. Indian economic indicators remain strong as real GDP has grown faster than expected in the last three quarters registering 7.7% YoY growth in 1HFY24. Moreover, inflation is in a comfortable range and the RBI has raised its GDP growth projections for FY25, underpinning the continued momentum in the economy. The Indian markets have been well supported by the domestic institutional flows wherein the rise of 'SIPs' continues to create consistent liquidity pool. Moreover, we believe that the FPI flows will likely improve in CY24 with key triggers being peaking US dollar and rising significance of India in global markets.

After the sharp rebound, the Nifty now trades at a 12-month forward P/E of 19.6x, near its LPA of 20.2x; however, it is at 15% discount to the Sep'21 high. As CY23 was marked by multi-year high interest rates, concerns about banking crises in the US and Europe, and geopolitical uncertainties, CY24 is likely to bring some moderation in these issues, especially on the interest rate front. With global liquidity tightening nearing its end, a healthy domestic macro and micro environment, strong domestic and retail participation and expected political continuity post- 2024 General Elections, bode well for policy momentum in India. Further, the country is currently experiencing the highest growth among major economies. Hence, despite fair valuations, the above factors augur well with potential for further upside in the long term.

Having said this, there are signs of euphoria in the market in terms of large number of promoters selling in the market, IPO oversubscription figures, options volume relative to futures volume surging 25x in last four years signaling a pronounced and euphoric surge in market participants' interest in option segment.

We will closely analyse 3QFY24 corporate results to rebalance the portfolio if required especially in the context of strong up move in many stocks/sectors during past few months. We remain confident that portfolio comprising stocks with time-tested high-quality managements from structural themes will deliver strong performance in medium to long term.

We added Fortis Healthcare in the model portfolio during the month. Fortis Healthcare, owned by IHH, is the third-largest pan-India hospital chain, with a ~4,000-bed capacity. Despite no expansion, its hospital EBITDA has doubled in the last three years, as it has focused on improving operations under the new management led by Dr. Raghuvanshi. Fortis' diagnostics business, Agilus Diagnostics is likely to see a value unlock through an IPO listing in near term.

Fortis trades at significant lower valuation than that of leading hospital entities mainly due to its lower EBITDA margins of ~17% as compared to Max's/Medanta's 27%/25% on account of legacy issues and scale up challenges across multiple units. A significant improvement in hospital profitability is, therefore, the key to potentially trigger a re-rating. To this end, management is undertaking multiple measures, such as divestment of underperforming facilities, targeted brownfield expansion plans, and cost optimisation measures. Going forward, we believe Fortis has multiple growth levers including revenue growth on existing beds, cost rationalisation and bed additions and margin improvement.

Top 10 Holdings

Name	Weight%	Theme	ROE (FY23) %	EPS CAGR (2Yrs)
STATE BANK OF INDIA	5.82	Consumption + Digital	16.7	2.1
J.B. CHEMICALS & PHARMA LTD	5.38	Consumption	17.8	11.4
TITAN CO LTD	5.21	Consumption	30.7	7.9
PERSISTENT SYSTEMS LTD	5.17	Digital	25.1	8.8
DLF LTD	4.93	Consumption	5.5	11.2
INFOSYS LTD	4.73	Digital	32.0	3.2
TATA COMMUNICATIONS LTD	4.59	Digital	146.9	1.2
PHOENIX MILLS LTD	4.56	Consumption	17.8	(0.5)
RELIANCE INDUSTRIES LTD	4.50	Digital + Consumption	8.9	4.7
BAJAJ FINANCE LTD	4.48	Digital + Consumption	23.5	10.0

Performance#	1 Month	3 Months	6 Months	1 Year	2 Years	Since Inception
Portfolio (HINP)	5.37%	9.49%	15.13%	29.75%	14.43%	17.99%
BSE 500 TRI ^	8.03%	12.35%	18.51%	26.55%	15.15%	17.62%
BSE 200 ^^	8.24%	11.91%	16.50%	22.76%	13.10%	15.00%

Source – Bloomberg, Returns over 1 year are annualized. Returns are adjusted for inflows/outflows. **The above information is for general information purpose only and it should not be considered as investment research, investment recommendation or advice to any reader of this content to buy or sell investments.** The portfolio may or may not have any future position in these stocks. ^ Regulatory benchmark ^^ Secondary benchmark, Data as on 31 December 2023. #Refer page no. 2 for detailed disclaimer. To view the portfolio's performance relative to other Portfolio Managers, you may click here (APMI (apmiindia.org)).

Basis of selection of types of securities

The investment approach is to create long term wealth for investors by participating in companies from sectors that are likely to be beneficiaries of transformation in the Indian economy including themes such as, digitization, consumption, GLOCAL i.e. Global companies working in local markets, etc. The portfolio manager intends to do the same by buying equities of these businesses and hence, equity and equity related securities are chosen for investment. The portfolio manager may, from time to time, invest un-deployed funds in units of liquid funds/ overnight funds of HSBC Mutual Fund including cash and cash equivalents for cash management purposes

Allocation of portfolio across types of securities

Instruments	Indicative Allocation (% of assets)	
	Minimum	Maximum
Equity and equity related securities	95%	100%
Units of liquid funds/overnight funds of HSBC Mutual Fund including cash and cash equivalents*	0%	5%

*** For cash management and pending deployment in the portfolio**

Why invest in HSBC India Next Portfolio (HINP)?

Fueled by focused themes
The portfolio aims to gain by focusing on the select themes such as Consumption, GLOCAL and Digitisation in a more concentrated manner that can propel growth.

Growth with new age portfolio
HINP's allocation to Discretionary spending can offer above average growth over a long term. Allocation to Digitisation adds new age investment ideas.

Earning visibility
Expected earnings acceleration can offer high alpha generation opportunities effectively.

High conviction and concentration
High conviction and concentrated portfolio of HINP can provide high alpha generation opportunities with our portfolio construction process and TVSQ strategy. (TVSQ – Dominant Themes, Reasonable Valuations, Scalability & Sustainability and Management Business Quality)

Sector Allocation

Sector Name	% of Net Assets
Financials	23.80
Information Technology	14.24
Consumer Discretionary	13.88
Industrials	12.49
Real Estate	9.49
Health Care	7.46
Communication Services	4.59
Energy	4.50
Consumer Staples	3.76

Market Capitalisation

Large Cap:	51.57%
Mid Cap:	32.91%
Small Cap:	9.73%

Avg. Weighted Market Capitalisation Rs.2,97,030 Cr

Median Market Capitalisation Rs.1,06,789 Cr

Large Cap:1st 100 company in terms of full market capitalization. Mid Cap: 101st to 250th company in terms of full market capitalization. Small Cap: 251st company onwards in terms of full market capitalisation.

Portfolio Fundamentals & Attributes

Dividend yield FY23	0.7%	2 year EPS CAGR	25.0%
P/E FY24 estimates	36.1x	RoE FY23	26.5%
P/E FY25 estimates	29.7x	Beta:	0.90

2 years EPS CAGR: FY23 – 25, Data as on 31 December 2023

Investment Strategy

The portfolio strategy endeavors to capitalize on long term wealth creation opportunity by investing in select high growth potential businesses from sectors that are likely to be beneficiaries of transformation in the Indian economy including themes such as Digitisation, Consumption, GLOCAL i.e. Global companies working in local markets, etc. The portfolio would be market cap agnostic and would focus on select themes with potential to deliver alpha over medium to long term.[&]
However, it is expressly clarified that clients are not being offered any guaranteed / assured returns and that the Portfolio Manager only endeavors to meet the investment objective

HSBC India Next Portfolio offers high conviction, concentrated investment portfolio focused on sectors that are likely to be beneficiaries of transformation in the Indian economy

[&] The Portfolio Manager may also participate in the Securities Lending Scheme.
Portfolio Disclaimer: The portfolio attributes of the investment approach mentioned above are based on all clients' portfolios existing as on the date stated above, excluding any temporary cash investments, and does not represent the model portfolio being offered to the clients, including prospective clients, and hence it is possible that these stocks may not be part of the portfolios constructed for new clients. **The above information is for illustrative purpose only and it should not be considered as investment recommendation or advice or opinion from the Portfolio Manager on the above mentioned stocks/ sectors.** In no event shall the Portfolio Manager, its directors or employees or its affiliates have any liability for any financial impact to the recipient on account of use of the above information.

[#] **Past performance may or may not be sustained in future.** Time weighted - Daily valuation method is used for rate of return calculation. Returns up to 1 year are absolute & over 1 year are Compounded Annualized. The performance disclosed above is based on all clients' portfolios under the investment approach, existing as on the performance calculation date, using Time Weighted Rate of Return (TWRR) of each client. All cash holdings and investments in liquid funds are also considered for calculation of performance and the performance data is net of all fees and all expenses (including taxes). Since inception date stated above is the date on which the first client investment was made under the investment approach. Please note that the actual performance for a client portfolio may vary due to factors such as expenses charged, timing of additional flows and redemption, individual client investment restrictions, if any, etc. These factors may have an impact on client's portfolio performance and hence may vary significantly from the performance disclosed above. Neither the Portfolio Manager, nor its directors or employees shall in any way liable for any variation noticed in the returns of individual client portfolios. The performance related information provided herein is not verified by SEBI.

Risk associated with investment approach
Deployment of monies under the investment strategy will be oriented towards equity and equity related securities of companies belonging to themes/sectors that are likely to be beneficiaries of transformation in the Indian economy including themes such as digitization, consumption, GLOCAL i.e. Global companies working in local markets, etc. and hence will be affected by risks associated with these industries as well as any factors that affect the broader macro-economic environment such as interest rate changes, liquidity, cross border fund flows, statutory/regulatory changes etc.
Since the portfolio is expected to be concentrated with exposure to select themes/sectors, it may perform differently from the broader stock markets/ benchmark, but may still be impacted by broad market movements. It is likely that the portfolio may also experience period of volatile performance and liquidity challenges in view of the limited number of stocks invested in by the fund manager.